



ALGERIA

***2024 -
June***

Component: Revenue

Modules: RM I – Tax Policy

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PROJECT SUMMARY	
COUNTRY:	Algeria
LEAD DEPARTMENT:	FAD
REGION:	AFR
PROGRAM ID:	[To be filled out by Secretariat]
PLANNED DATES:	FY25–FY26
PROJECT MANAGERS:	Charles Vellutini - FADT1 (Lead)
RM I – TAX POLICY	Charles Vellutini - FADT1
ESTIMATED BUDGET	\$280,449
BUDGET FOR ENDORSEMENT:	\$148,619

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*ALGERIA***ACRONYMS**

CD	Capacity development
CIT	Corporate income tax
FAD	IMF's Fiscal Affairs Department
PIT	Personal income tax
VAT	Value-added tax

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I. PROJECT PURPOSE

Diversifying the economy away from hydrocarbons and taxing the informal sector are priorities for the government. In 2023, non-hydrocarbon tax revenues were estimated at 11.4 percent of GDP, with hydrocarbon revenues at 18.3 percent. Tax reforms were implemented in recent years: a progressive wealth tax was introduced in 2020; the personal income tax (PIT) base was broadened, and rates were lowered. The VAT's performance, however, remains low, with C-efficiency at only 36 percent and VAT expenditures at a at least 1 percent of GDP. Tax expenditures on the PIT and the corporate income tax (CIT), currently being estimated by the World Bank (see below) are also a significant source of non-oil revenue loss, at a time when developing non-oil tax revenue is a key challenge in Algeria.

At the request of the authorities (see below), the project will (i) review the mining (non-oil) taxation regime; (ii) follow-up on the capacity development (CD) provided in FY23 on value-added tax (VAT), implementing key reforms on the VAT for e-commerce and digital services; (iii) review tax expenditures on the PIT and CIT.

The estimated budget for this two-year project is \$280,449, but endorsement is requested for \$148,619 through FY25.

II. BACKGROUND

Macro-fiscal situation

Algeria's last IMF program expired in 1998. Real GDP growth is estimated to be 4.2 percent in 2023 and is expected to remain robust in the near term. However, fiscal sustainability challenges have become apparent as in 2024 the government envisages a large fiscal expansion with overall deficit expected to reach 8.5 percent of GDP (from 3 percent in 2023) and debt to reach 50 percent of GDP. Large deficits are expected to persist in the years to come. A fiscal rebalancing is needed to rebuild buffers, reduce the vulnerability of the budget to hydrocarbon price volatility, and limit risks to debt sustainability.

Country engagement and alignment to reform priorities

During the 2024 Spring Meetings, the authorities confirmed their interest in (i) a review of (non-oil) mining taxation; (ii) a follow-up on the VAT review provided in 2023, with the objective of implementing selected reforms, including for VAT on e-commerce and digital services; (iii) address tax expenditures on the PIT and CIT.

III. PROJECT MODULES - DESCRIPTION

This proposal will provide CD support to Algeria in the area of tax policy. The IMF's Fiscal Affairs Department (FAD) will provide CD to support improvements within the strategic objectives presented in Table 1.

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Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM I / Tax Policy	Improve tax policy design

A. RM I – Tax Policy**Scope**

The scope of the proposal is the design of mining taxation, VAT, CIT and PIT. The project will comprise three main activities:

- Review of mining taxation (non-oil). This will entail the following tasks:
 - Review the current laws related to fiscal regimes in mining, focusing on income tax and royalty obligations, as well as revenue generation from licensing auctions.
 - Provide qualitative and quantitative assessments of the fiscal regimes using FARI-based¹ simulations and evaluation metrics for the major minerals.
 - Discuss reference prices used to assess the current and recommended royalties as well as the potential for implementing rent taxation.
 - Review investment incentives, ring-fencing, and anti-abuse policies.
- Follow-up on the 2023 VAT review delivered by FAD:
 - The authorities have confirmed their interest in going ahead with key recommendations provided by FAD.²
 - This will include a revision of relevant tax codes to adapt the VAT legislation to cross-border e-commerce and digital services.
 - This activity will be coordinated with the IMF's Legal Department as it implies significant legal drafting. FAD will provide policy oversight.
- Review of tax expenditures on the PIT and CIT. This will entail
 - Using the tax expenditure estimates produced by the World Bank (see below, coordination) as the basis for quantification of revenue loss;
 - Review of PIT incentives, including on capital income taxation;
 - Review of CIT tax expenditures, including investment incentives;
 - Review of the implications of Pillar 2 global minimum tax on global profits of large multinationals active in Algeria.

¹ The Fiscal Analysis of Resource Industries (FARI) model is used by FAD to evaluate fiscal regimes for mining. See <https://www.imf.org/en/Topics/fiscal-policies/fiscal-analysis-of-resource-industries>.

² Algérie : TVA - Rationalisation des dépenses fiscales et mise en œuvre dans le secteur numérique. IMF/FAD, January 2023.

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Program Objectives

The project's objectives are to boost non-oil tax revenues while improving the tax system's progressivity and efficiency.

Expected Results (outcomes)

The project is expected to achieve the following:

- Increased tax revenue from amended tax rates and bases on mining taxation, VAT, CIT, and PIT.
- Improved distributional fairness across taxpayers, especially through improvements of PIT tax expenditures.
- Increased economic efficiency by minimizing the economic distortions imposed by taxes.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Country Engagement

The project is aligned with the authorities' priorities, as confirmed through email exchanges following the 2023 VAT mission, and the 2024 Spring Meetings. It includes a direct implementation to that mission's recommendations (inter alia, on VAT for e-commerce and digital services).

B. Delivery Modalities

CD will comprise of a mix of remote and in-person activities. Virtual deliveries will be used to provide efficiencies to in-person support, including pre-engagement meetings and post-follow-up meetings. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ)** missions and staff visits to provide strategic recommendations, conduct regular follow-ups, assess progress, ensure short-term expert work is aligned to plans, coordinate with other CD providers, and adjust reform implementation plans.

C. Coordination / Cooperation

FAD assistance in Algeria on tax policy has been closely coordinated with the World Bank. The 2023 mission on VAT extensively used the VAT tax expenditure estimates prepared by the World Bank. The World Bank is currently engaged in preparing similar tax expenditure estimates for the PIT and CIT, which FAD intends to use for its policy review, as mentioned.

Coordination			
Partner	Type of coordination	Area of coordination	Frequency
World Bank	FAD will use World Bank estimation of tax expenditures on CIT and PIT	Tax policy	Based on CD mission needs

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V. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Risk Assessment	Mitigation Measures
Political Support			
General	Political instability may slow down and even stop implementation of reforms.	Low	Focus on strategic advice and hands-on capacity building to have a more permanent impact. Close consultation with the IMF's Middle East & Central Asia Department team and the authorities.
RM I	Reform proposals to reduce tax expenditures may trigger opposition from beneficiaries.	Low	Consultation with relevant internal and external stakeholders to help ensure reflect broad consensus across government.
Management and Technical Staff Support and Commitment			
RM I	Close coordination across senior level staff in relevant counterpart agencies (Ministry of Finance, Economy, tax administration, investment promotion) is critical for delivery.	Low	Coordination with WB and commitment by the Government

VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities	FY25	FY26	Grand Total
HQ remote support	1	0	1
HQ-led CD mission	1	1	2
Total	2	1	3

Note:

- Due to the need for a strong policy dialogue with the authorities, HQ-led, in-person delivery was chosen for the interventions on mining taxation (FY25) and PIT & CIT expenditures (FY26), similar to the majority of tax policy CD provided by FAD. Additionally, data collection on these two data-intensive topics will be greatly facilitated by an in-person visit.
- Remote delivery was chosen in the follow-up on past VAT review (FY25) will be delivered remotely because this is mostly about implementing recommendations for the 2023 CD mission, with limited additional data analysis and policy dialog.
- Collectively the blend of CD delivery proposed over the duration of this project/program reflects the optimal balance of in-person, remote, and hybrid activities needed to achieve the project/program outcomes taking into account the needs of the country and the resources available.

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Timing	CD Modality	Proposed Topics of CD
RM I – Tax Policy		
Q2/FY25	Field-based work	Remote support on VAT for e-commerce and digital services
Q3/FY25	Field-based work	HQ-led CD mission (mining)

VII. PROGRAM FINANCIALS

	FY25	FY26	TOTAL (USD)
RM I - Tax Policy	138,896	123,206	262,102
Trust fund management fee (7%)	9,723	8,624	18,347
TOTAL	148,619	131,830	280,449

The estimated budget for this two-year project is \$280,449, but endorsement is requested for \$148,619 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

VIII. TARGETED LOGICAL FRAMEWORK**A. RM I – Tax Policy**

Objective	
Improve Tax Policy Design - TPD	
Outcome(s)	Indicator(s)
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	More efficient extractive industry fiscal regime legislation or model production sharing agreement approved
	Adopt legislation that reduces economic distortions